



NEWS RELEASE

FEDERAL RESERVE BANK *of* KANSAS CITY
DENVER • OKLAHOMA CITY • OMAHA

FOR IMMEDIATE RELEASE

October 24, 2019

CONTACT: Pam Campbell

(405) 270-8617

Pam.Campbell@kc.frb.org

Tenth District Manufacturing Eased Slightly in October
Federal Reserve Bank of Kansas City Releases October Manufacturing Survey

KANSAS CITY, Mo. – The Federal Reserve Bank of Kansas City released the October Manufacturing Survey today. According to Chad Wilkerson, vice president and economist at the Federal Reserve Bank of Kansas City, the survey revealed that Tenth District manufacturing activity eased slightly in October, and expectations for future activity inched lower but remained slightly positive.

“Overall regional factory activity declined again in October,” said Wilkerson. “This was driven by further deterioration in durable goods production, as nondurable manufacturing expanded slightly for the second straight month.”

A summary of the October survey is attached. Results from past surveys and release dates for future surveys can be found at www.kansascityfed.org/research/indicatorsdata/mfg.

The Federal Reserve Bank of Kansas City serves the Tenth Federal Reserve District, encompassing the western third of Missouri; all of Kansas, Colorado, Nebraska, Oklahoma and Wyoming; and the northern half of New Mexico. As part of the nation’s central bank, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing financial services to depository institutions. More information is available online at www.kansascityfed.org.

###

TENTH DISTRICT MANUFACTURING SUMMARY

Tenth District manufacturing activity eased slightly in October, and expectations for future activity inched lower but remained slightly positive (Chart 1). The month-over-month price index for raw materials declined at a slower rate, while the price index for finished products expanded slightly. District firms expected prices to increase over the next 6 months.

Factory Activity Eased Slightly in October

The month-over-month composite index was -3 in October, down slightly from -2 in September, but above -6 in August (Table 1). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. The decline in district manufacturing activity continued to be driven by slower activity at durable goods plants, especially from decreases in nonmetallic mineral products, primary metal, fabricated metal products, machinery, computer and electronic products, and transportation equipment manufacturing. Most month-over-month indexes declined in October, especially for the new orders index. However, the production index remained positive, and the supplier delivery time index inched higher. Year-over-year factory indexes were somewhat mixed in October, but the composite index was again unchanged at -1. The future composite index remained positive, but eased from 5 to 2, the lowest future composite index since March 2016.

Special Questions

This month contacts were asked special questions about capital investment decisions and difficulties hiring employees. Over 43 percent of regional manufacturing contacts indicated that the need to replace existing plant and equipment was the primary driver for capital investment decisions (Chart 2). Nearly 38 percent of contacts reported future demand expectations was the primary driver for investment decisions, and another 13 percent said economic/political uncertainty was the main factor. In regards to filling positions, 48 percent of firms said they had difficulty hiring workers over the past three months because of a lack of qualified applicants (Chart 3). Just over 26 percent of contacts noted they did not have difficulty hiring workers over the past three months.

Selected Manufacturing Comments

“Trade war with China is really hurting our export business, and we’ve had to outsource outside the U.S. to retain only about half of our traditional customer demand in China. Besides the lost revenue, profit margins are half due to outsourcing the production.”

“We are seeing some quote opportunities with companies looking to source their needs in the U.S. versus China.”

“Less sales to China means less manufacturing.”

“Backlog dropping like a rock in past several months. Production teammates seeing their hours worked each week down by 30% to 40%. Tough market right now, competitors reducing prices way below what we are currently willing to go. Concentrating on cost reduction and taking care of what we have control over.”

“Don’t get too excited about our production coming up. We took our inventory down to very low levels and our big shipping time is in the spring. We are just building back up at this point. We are still very sluggish.”

“Things have been slower for several months, but not bad. Bookings have slowed although it is unknown whether it is in response to short term volatility in the cost of steel, companies playing wait and see, or a significant shift in the quality of the industrial economy.”

“Although we have had a very good year... bookings, shipments, and production has been pretty flat for the last 2 years.”

“We are building and automating a new factory and reduced our head count in anticipation of the move. So those still on board are working more prior to our move.”

“Business is good, having trouble finding people.”

“Still looking for qualified workers that show up and stay a full day.”

“Because of the shortage with labor we have been working more overtime.”

Table 1. Summary of Tenth District Manufacturing Conditions, October 2019

Plant Level Indicators	October vs. September (percent)*					October vs. Year Ago (percent)*					Expected in Six Months (percent)*				
	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}	Increase	No Change	Decrease	Diff Index [^]	SA Index ^{^^}
Composite Index				-2	-3				-1					5	2
Production	33	42	24	9	8	35	27	38	-3	38	33	29	9	2	
Volume of shipments	32	40	28	3	0	33	28	39	-6	38	33	29	9	2	
Volume of new orders	28	36	37	-9	-13	31	27	42	-10	40	33	27	13	11	
Backlog of orders	20	48	31	-11	-11	26	41	32	-6	24	42	34	-11	-15	
Number of employees	18	60	22	-4	-6	38	32	31	7	33	42	25	8	4	
Average employee workweek	18	70	12	6	3	25	53	22	3	21	58	21	0	4	
Prices received for finished product	17	72	11	6	4	52	32	16	36	30	55	15	16	16	
Prices paid for raw materials	19	57	24	-4	-1	52	22	26	26	35	49	16	19	21	
Capital expenditures						36	42	23	13	27	50	23	3	1	
New orders for exports	9	78	13	-5	-7	17	65	18	-1	15	72	14	1	2	
Supplier delivery time	9	85	6	3	3	15	72	13	2	8	81	10	-2	1	
Inventories: Materials	17	56	27	-10	-5	29	42	29	0	22	53	25	-2	-6	
Inventories: Finished goods	17	61	22	-5	0	29	40	31	-1	20	49	31	-11	-14	

*Percentage may not add to 100 due to rounding.

[^]Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.

^{^^}Seasonally Adjusted Diffusion Index. The month vs. month and expected-in-six-months diffusion indexes are seasonally adjusted using Census X-12.

Note: The October survey was open for a five-day period from October 16-21, 2019 and included 90 responses from plants in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Manufacturing Composite Index vs. a Month Ago

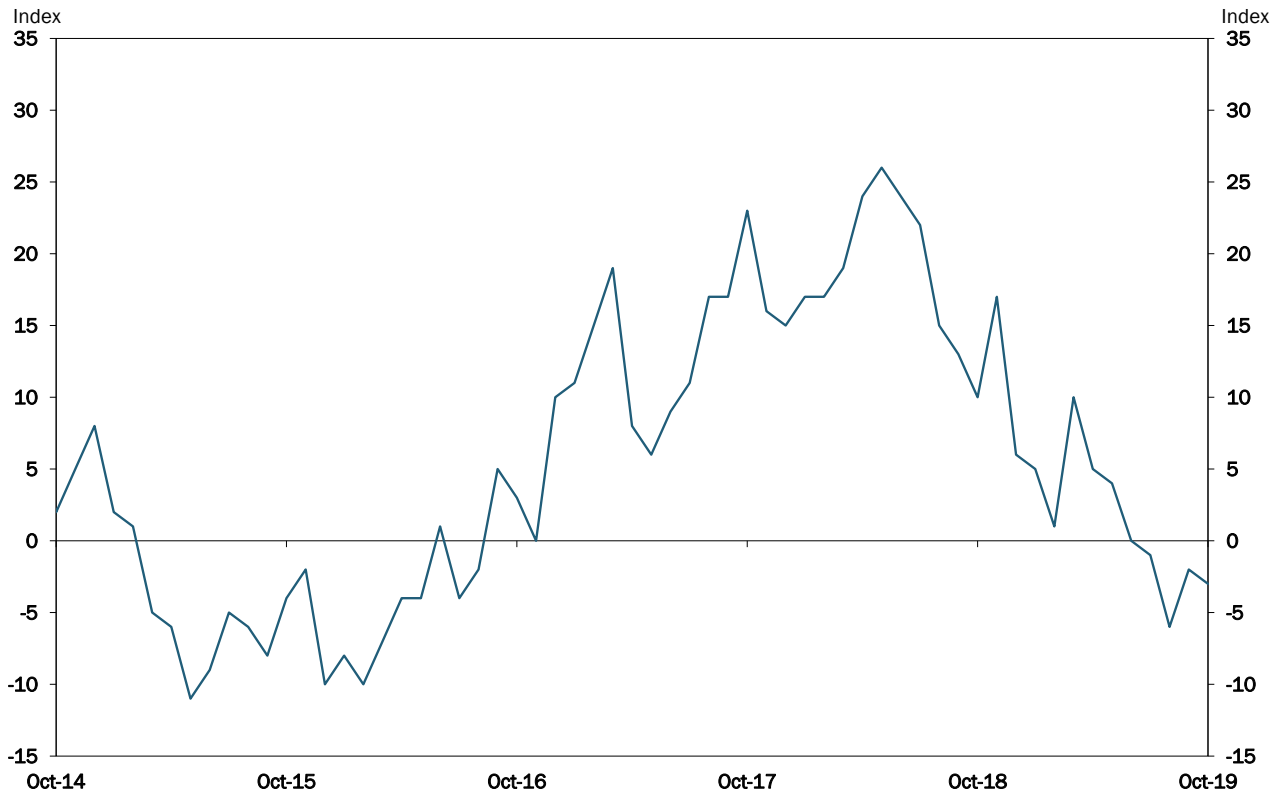


Chart 2. Special Question: What is the primary driver for your firm's capital investment decisions over the next year?

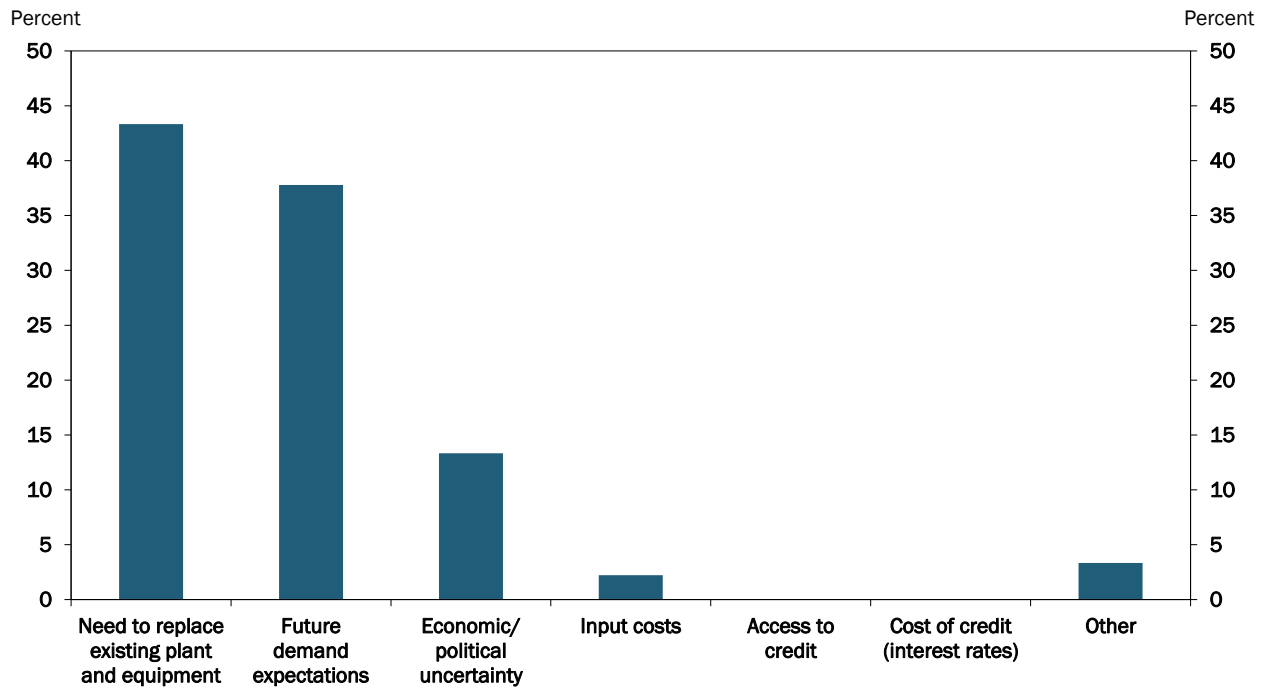


Chart 3. Special Question: Thinking of positions your firm has filled or attempted to fill, have you had difficulty hiring workers in the last three months? (Choose as many

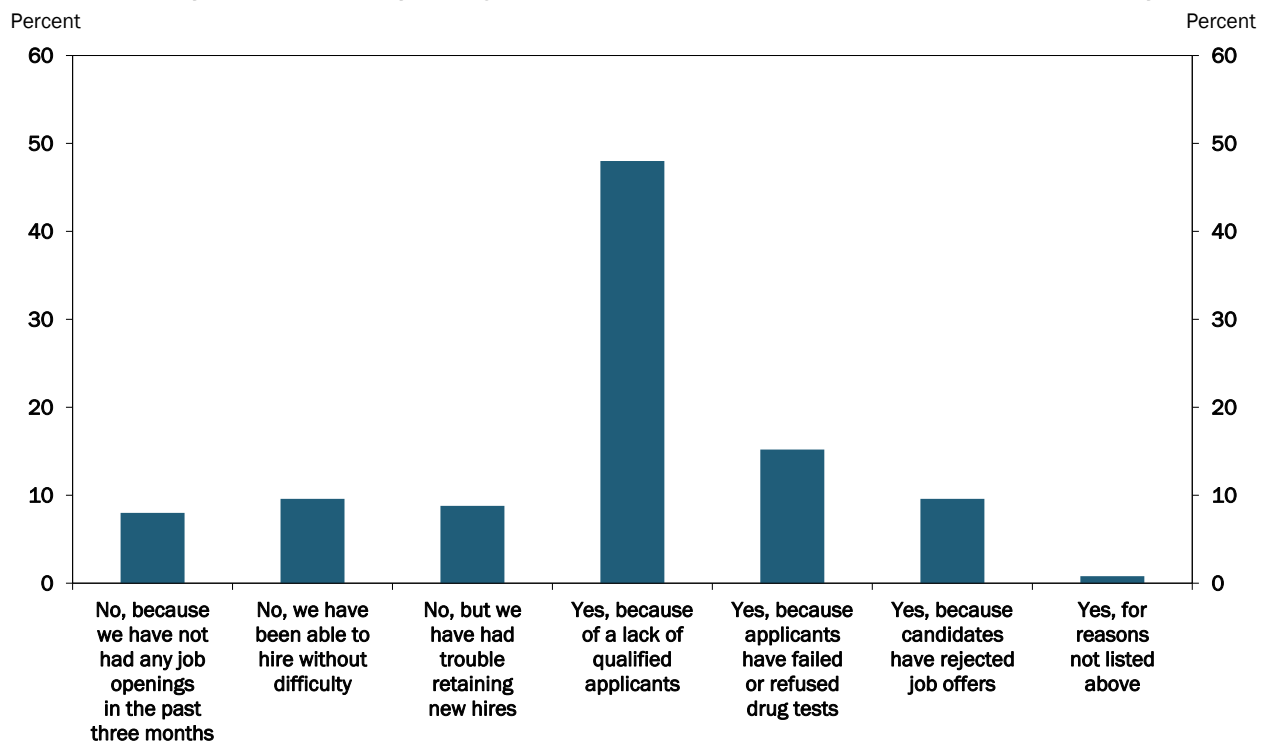


Table 2
Historical Manufacturing Survey Indexes

	Oct'18	Nov'18	Dec'18	Jan'19	Feb'19	Mar'19	Apr'19	May'19	Jun'19	Jul'19	Aug'19	Sep'19	Oct'19
Versus a Month Ago (seasonally adjusted)													
Composite Index	10	17	6	5	1	10	5	4	0	-1	-6	-2	-3
Production	8	27	-13	2	-4	17	12	2	-3	-6	-2	11	8
Volume of shipments	14	33	3	6	-14	14	9	-2	-7	0	-7	9	0
Volume of new orders	9	22	7	1	-10	4	10	4	5	-2	-16	-3	-13
Backlog of orders	7	19	9	-13	-18	9	-5	-5	-7	-13	-19	-19	-11
Number of employees	10	9	10	7	10	14	2	5	5	-6	-7	-13	-6
Average employee workweek	5	5	3	7	0	14	14	2	0	-4	7	10	3
Prices received for finished product	20	26	8	23	18	7	10	15	3	2	-3	1	4
Prices paid for raw materials	37	45	34	23	19	15	15	13	9	15	-2	-6	-1
Capital expenditures	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
New orders for exports	2	5	-6	-10	-2	5	8	6	-4	-6	0	-2	-7
Supplier delivery time	9	10	7	14	10	8	6	9	-3	6	-6	1	3
Inventories: Materials	11	14	19	4	-2	9	-4	0	-3	1	3	-5	-5
Inventories: Finished goods	8	11	12	8	4	0	2	8	6	-1	-6	-9	0
Versus a Year Ago (not seasonally adjusted)													
Composite Index	45	40	38	31	23	27	22	23	4	11	-1	-1	-1
Production	54	39	35	26	13	29	24	28	-7	8	-1	-6	-3
Volume of shipments	50	47	39	19	10	29	16	21	-3	5	3	6	-6
Volume of new orders	57	46	37	28	15	25	23	16	-12	1	-16	-1	-10
Backlog of orders	40	34	35	19	16	11	9	17	-8	-7	-12	-16	-6
Number of employees	49	49	46	38	44	34	28	26	20	14	8	7	7
Average employee workweek	30	30	31	19	4	12	6	-1	-1	4	-3	6	3
Prices received for finished product	60	61	56	53	52	53	59	53	52	56	41	33	36
Prices paid for raw materials	78	75	79	69	73	64	76	60	46	56	33	26	26
Capital expenditures	30	48	43	26	11	15	19	24	7	25	19	22	13
New orders for exports	11	20	10	-4	-6	10	1	11	7	-3	-3	-8	-1
Supplier delivery time	27	23	26	25	19	14	18	21	1	18	3	2	2
Inventories: Materials	37	42	49	36	24	35	18	25	17	12	4	-8	0
Inventories: Finished goods	21	33	34	27	14	27	24	25	18	21	1	-1	-1
Expected in Six Months (seasonally adjusted)													
Composite Index	21	18	22	18	13	22	11	12	11	9	11	5	2
Production	37	28	24	33	18	28	14	20	22	23	23	5	2
Volume of shipments	34	27	25	30	15	33	14	23	23	17	20	5	2
Volume of new orders	35	26	23	25	13	29	12	12	16	17	11	13	11
Backlog of orders	25	10	7	17	4	17	4	-3	11	-6	4	-12	-15
Number of employees	16	23	37	22	28	34	19	23	11	5	7	13	4
Average employee workweek	9	13	17	10	5	13	-5	1	-3	-5	4	-2	4
Prices received for finished product	39	30	41	40	34	39	35	36	31	18	20	14	16
Prices paid for raw materials	43	42	50	49	43	45	48	52	36	37	35	30	21
Capital expenditures	16	26	33	33	12	31	23	27	11	14	12	6	1
New orders for exports	9	20	9	-4	-3	6	4	4	4	-6	6	-2	2
Supplier delivery time	13	9	17	13	12	15	8	8	-1	4	4	0	1
Inventories: Materials	5	6	7	-2	-4	7	3	-2	4	-2	11	-8	-6
Inventories: Finished goods	-4	8	9	-5	2	6	-3	-1	-2	-13	4	0	-14